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OMAN

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999 1/	2000 2/
Income, Production and Employment:			
Nominal GDP	14.2	15.6	18.8
Real GDP Growth (pct)	-10.6	14.4	20.5
GDP by Sector:			
Agriculture & Fisheries	0.4	0.4	0.5
Petroleum	4.4	6.0	9.1
Manufacturing	0.7	0.7	0.8
Services 3/	6.5	6.4	6.7
(total services less public services sector)			
Government Services 3/	1.7	1.8	1.7
Per Capita GDP (US$)	6,192	6,714	8,174
Labor Force (000s)	634.8	633.6	643.7
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2 Jan-Dec) 4/	4.8	6.4	0.1
Consumer Price Inflation 5/	-0.8	-0.7	-0.8
Exchange Rate (Omani riyal/US$)	2.6	2.6	2.6
Balance of Payments and Trade: 6/			
Total Exports FOB	5.5	7.2	10.31
Exports to U.S. (US$ millions) 7/	230.4	230.5	260.9
Total Imports CIF	5.8	4.7	4.9
Imports from U.S. (US$ millions) 7/	302.7	187.9	203.8
Trade Balance	-0.3	2.6	5.4
Balance with U.S. (US$ millions)	-72.2	213.3	-57.12
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct) 8/	6.9	7.0	3.5
Current Account Deficit/GDP (pct) 9/	20.3	1	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves 10/	2.0	2.8	4.59
Aid from U.S. (US$ millions) 11/	0.2	0.2	0.2
Aid from Other Sources	N/A	N/A	N/A

1/ All 1999 GDP data is provisional.

2/ 2000 estimates are annualized based on January-June data from the Central Bank of Oman and the August 31, 2000 Ministry of National Economy statistical bulletin unless otherwise indicated.

3/ Health and Education are included in services, although most government-provided services shown are current (not capital) expenditures for public administration and defense.

4/ 2000 money supply data is based on January through June 2000. Source: Central Bank of Oman.

5/ Muscat Governorate CPI. CPI figure for 2000 is the average for the period from January through July 2000.

6/ The trade balance with the United States does not include Omani oil purchased by the United States on the spot market. Trade data does not necessarily include all U.S. exports subsequently re-exported to Oman from Dubai, United Arab Emirates, the primary entry point for most U.S. goods to the southern Arabian Peninsula.

7/ 2000 trade data is annualized using January-May 2000 figures from the U.S. Department of Commerce. 1998-1999 trade data is from the U.S. Department of Commerce, which has lower figures for U.S. exports to Oman than Omani customs data, presumably due to the large numbers of U.S. products re-exported to Oman from the United Arab Emirates.

8/ Fiscal deficit as a percentage of GDP was annualized using the July 31, 2000 figures.

9/ Current account deficit for 2000 is not available.

10/ Data represent Central Bank assets. 2000 data is June 30, 2000 balance. The State General Reserve Fund does not publish its holdings.

11/ Funding for International Military Education and Training (IMET) program.

Sources: Central Bank of Oman, Ministry of National Economy Publications. Bilateral trade data is from U.S. Department of Commerce.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.3 million people (including as many as 600,000 expatriates) living in the arid mountains and desert plains of the southeastern Arabian Peninsula. Oman's nominal GDP in 1999 was $15.6 billion, an increase of 10.4 percent from 1998. Oman is a small oil producer and ranks 18th in the world for overall oil production. In 1998 Oman cut oil production to about 820,000 barrels per day in line with OPEC production cuts, although Oman is not a member of OPEC. This was in response to declining oil prices in 1998, which resulted in a 29 percent drop in Omani oil revenue that year. In 1999 average daily oil production increased to around 900,000 barrels per day, where it remains today. Oil revenue accounted for 68 percent of government revenues in 1999 and 67 percent in the first 6 months of 2000. Oman's estimated per capita GDP increased from $6,192 in 1998 to $8,174 in 2000 due to the increase in world oil prices. Preliminary figures released by the Ministry of National Economy indicate a 33.6 percent GDP growth during the first half of 2000. A continuing trend of high oil prices will likely maintain high GDP growth in 2000 and bring about a corresponding increase in per capita income. Oil revenues increased by 67.1 percent during the period January through July 2000 compared to the same period in 1999. Preliminary 2000 figures also indicate an increase in total exports of about 83.7 percent mainly due to higher oil prices and a six-percent increase in imports during the first six months of 2000. These figures indicate that Oman should end the year 2000 with a trade surplus of approximately $2.6 billion.

Oman formally acceded to the WTO on October 10, 2000.

A significant proportion of Oman's rural population lives near the poverty line. The annual population growth is over 3.5 percent, one of the highest in the region. This presents an ever-increasing demand on infrastructure. It is estimated that 37 percent of the Omani population is under the age of 15, and 66 percent of the population is under the age of 30. Job creation and "Omanization," i.e., transfer of expatriate jobs to Omanis, are major government priorities.

The Omani government links developmental priorities and budgetary plans in five-year planning cycles. Oman's Fifth Five Year Plan, 1996-2000, laid out a program designed to shift economic development from governmental to private initiative; diversify the national economy from dependence on crude oil revenue, primarily through future natural gas sales and light industry; and educate a productive national work force for private employment. Aiming at a zero deficit by the year 2000, stringent annual budgets were planned on the basis of revenue of $14.50 per barrel of petroleum. However, the sharp drop in oil prices in 1998 and early 1999 left Oman with a budget deficit of nearly $975 million in 1998, or approximately 6.9 percent of GDP. This trend continued in 1999, when Oman's budget deficit reached $1.1 billion, or approximately 7 percent of GDP even with higher oil prices. The increase in oil prices in the current year is expected to positively affect the fiscal deficit at the end of 2000. Annualizing the figures published so far this year by the Ministry of National Economy, we expect the fiscal deficit to come down to 3.5 percent of GDP. However, this considerably overstates the actual deficit by ignoring the Strategic Reserve Fund, which is "off the books."

There is no personal income tax in Oman, and with the exception of modest fees for medical visits, Omanis continue to enjoy free medical care and free education, including vocational school, and post-secondary and higher education (for a few, selected through examinations). With oil prices around $25 a barrel at the end of 1999, the 2000 State General Budget increased expenditures by about 13 percent (compared to the 1999 budget) with expenditure increases mainly in the civil ministries affecting spending on such services as health, education, and electricity. The Omani government also took measures to increase non-oil revenue in 1999 by increasing customs duties to 15 percent on a wide range of goods including automobiles, and increasing the corporate income tax from 7.5 to 12 percent. However, this action negatively affected the Omani economy and in December 1999 Sultan Qaboos issued a royal decree eliminating the increased customs duties effective January 1, 2000.

Preliminary figures issued by the Ministry of National Economy for the first seven months of 2000 revealed a fiscal deficit of around $373 million. Among major public expenditure categories in 1999, defense and security accounted for 38 percent of current expenditures (military capital expenditures are not published). Current and capital expenditures for the national oil company Petroleum Development Oman (PDO) accounted for 11 percent of total public expenditures. This trend continued in 2000, as defense and security current expenditures accounted for 36 percent and PDO current and capital expenditure accounted for 13 percent of total public expenditures through the end of July 2000.

The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange, and raise revenue, not as a means to control the money supply. The large amounts of money repatriated from Oman by foreign workers and by foreign companies in Oman contributes to current account deficits. Outward workers’ remittances decreased by 3 percent in 1998 to $1.4 billion, or 11 percent of GDP. In 1999 outward workers' remittances remained nearly $1.4 billion, but decreased as a percentage of GDP to around 9 percent.

2. Exchange Rate Policies

The Omani riyal has been pegged to the dollar since 1973. Since a 10.2 percent devaluation in 1986, it has remained steady at about $2.60 to 1 Omani riyal.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both as an employer and as a purchaser of goods and services. Contracts for goods and services for the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are done on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through the Ministry of Commerce and Industry and, for projects under $668,000, the Oman Development Bank, which was reorganized in 1997), tax incentives, modest procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants five-year tax holidays to newly established industries or expansion projects; a one-time renewal is possible. Oman has fairly rigorous health, safety, and environmental standards, and is attempting to upgrade its enforcement capabilities.

Oman recently revised its corporate tax structure in August 2000 to increase its non-oil revenue and make it easier for foreign-owned joint ventures to benefit from the national tax rate. A 12 percent maximum rate of corporate income tax is now applicable to wholly Omani-owned firms and companies with no more than 70 percent direct foreign ownership. A graduated system of taxes, with a ceiling of 30 percent, applies to Omani/foreign joint ventures if direct foreign ownership in the company exceeds 70 percent. However, the tax rate for foreign petroleum companies is set in concession agreements. Import duty is about five percent. There are no personal income taxes or property taxes. Employers pay seven percent of a foreign worker's basic salary to a vocational training fund for Omanis, and eight percent of an Omani's basic salary to a social security fund. The government imposes substantial fees for labor cards, and companies are liable for fines if they do not reach government-specified levels of "Omanization" by the end of target deadlines.

The Omani government continues to emphasize privatization of the telecommunications, power, and transport sectors as a national priority. In 1996 Oman became the first Gulf nation to turn exclusively to the private sector to finance, build, and operate a power plant, a 90 MW plant in Manah. Title for the Manah plant will revert to the government after 20 years. The project was expanded earlier this year to reach 270 MW. In 1999 the government awarded a tender for a 200 MW power plant in Salalah to the U.S. firm PSE&G. Recently, the government awarded its third private power project in the Sharqia region and it is expected to award the fourth and last power/desalination project soon. In 1999 the government also selected international financial advisors for planned privatizations in the telecommunications and aviation sectors. The government has been involved in a number of joint ventures with private sector firms in major infrastructure projects. November 1998 saw the opening of a world-class container transshipment port at Salalah, owned and operated by Salalah Port Services (SPS), a joint venture between the Omani government, Sea-Land (U.S.), Maersk Lines (Denmark), and Omani investors. In mid-1999 Maersk purchased many of Sea-Land's overseas operations, including Sea-Land's participation in the Salalah Port project. The container port, already one of the 20 largest ports in the world, is in close proximity to major East-West shipping lanes and is expected to spur industrial growth in the Salalah area. In September 2000 the government signed a Memorandum of Understanding with Salalah Port Services to establish an Industrial Free Trade Zone at Salalah Port, under the management of Salalah Port Services and Texas-based Hillwood Strategic Services.

Oman Liquefied Natural Gas (OLNG), which completed a $2 billion LNG plant at Sur in a joint venture between the Omani government, Royal Dutch Shell, Total, and Korea Gas, began deliveries of it LNG in May 2000. The entire 6.6 million ton/year LNG output of OLNG has been sold in long term contracts to Korea, India (to an affiliate owned by the U.S. firm Enron), and Japan. Financing on the downstream plant is on a limited recourse basis, with upstream facilities and a 360-km pipeline financed through the corporate developers, principally Royal Dutch Shell. The proposed Sur fertilizer plant, a joint venture between the Omani government and Indian State investors, was finally approved by the Indian government in June 2000.

However, the final details are still being negotiated by the two governments. The government is also planning gas-driven projects in the northern Omani port city of Sohar, including a $3 billion aluminum smelter complex (still seeking technical partners). However, government plans for a $900 million polyethylene plant in Sohar have stalled as the original joint-venture partner, BP/Amoco, withdrew from the project in 1999. In late 1999 construction began on a $250 million industrial port in Sohar, which is expected to be completed by 2002. Other initiatives aim to develop the infrastructure of Oman's interior in order to provide services and employment for Oman's growing population, estimated to be increasing at around 3.5 percent annually. Industrial parks have been set up throughout the country to provide investors with subsidized sites and services ready for light manufacturing plants. Recently, the Omani government concluded contracts for building gas pipelines to Sohar and Salalah.

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. In October 1999 the government withdrew plans for a $400 million Eurobond issue, citing the improved performance of the economy in the wake of increased oil prices. Oman maintains a solid reputation for credit worthiness. In March 2000 Standard and Poors revised Oman's credit rating back to "stable," an improvement from the negative rating that it had in 1999 due to low oil prices. There are no International Monetary Fund or World Bank adjustment programs. The government gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional personal donations to Arab causes, Muslim institutions, or worthy foreign organizations. Oman does not publish figures on the level of its external debt or its fund to meet future contingencies and the State General Reserve Fund (SGRF). The 1998 budget crunch required a drawdown of $704 million from the SGRF in 1998 and $1.17 billion through August 1999, an increase of 200 percent over the corresponding period in 1998. However, from March 1999 the SGRF has been generously replenished, since all oil revenues in excess of $9 dollars a barrel in 1999 and $14.50 in 2000 were transferred to the SGRF.

5. Significant Barriers to U.S. Exports

Special activity licenses are required to import pharmaceuticals, liquor, and defense equipment. Some foreign suppliers have previously complained that exclusive agency agreements are difficult to break. In September 1996 Oman amended its agency law to allow non-exclusive representational agreements. Oman has now acceded to the WTO, after introducing new legislation in order to comply with WTO requirements on the removal of non-tariff barriers to trade, intellectual property protection, licensing, application of standards and sanitary measures to imports, and customs valuation and other customs requirements. Oman also established commitments for market access for goods and services in the context of its WTO accession.

Service barriers consist of simple prohibitions on entering the market. For example, prior to the WTO accession negotiations, entry by new foreign firms in the areas of banking, accountancy, law and insurance was not permitted (except as contracted for specialized services required by the government). Oman now has established specific commitments allowing market access in these areas, subject only to maximum equity participation of 70 percent. Joint ventures for professional services are encouraged between Omanis and foreign firms, ensuring that foreign professions have an Omani partner to do business. The central bank seeks the strengthening and further consolidation of existing banks. It has placed limits on the percentage of the consumer loan portfolios and is pressing for the BIS 12 percent capital adequacy standard. Citibank has a wholly-owned branch in Muscat. Major U.S. engineering and accounting firms are well represented. Omani firms appear quite open to affiliation with U.S. firms. The U.S. firm Curtiss, Mallet-Prevost, Colt & Mosle is the only U.S. law firm with an office in Muscat and serves as legal counsel to the Ministry of Electricity and Water for the Salalah power privatization project, and the Muscat Municipality on the Muscat Wastewater Project.

Tax policy discourages wholly foreign-owned firms, although firms with up to 70 percent foreign ownership are taxed at the same rates as Omani firms. There is a case-by-case approach towards major projects by more than 70 percent or wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani ownership. For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk.

Oman uses a mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations with the UK, British standards have also been adopted for many items, including electrical specifications. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. exporters sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements. Oman's WTO accession will gradually ameliorate these requirements, in line with WTO requirements. U.S. export brokers and Omani trading firms are prone to trade difficulties when deliveries are not made within demanding government tender delivery dates.

Despite requirements to "Omanize" the work force, the private sector depends on a high number of expatriates for managerial, technical, and physical labor. Government statistics indicate that nearly 90 percent of workers in the private sector are expatriates.

Oman continues to promote "Buy Omani" laws; this is a slow process as very few locally made goods are available that meet international standards. The Tender Board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price, but imported goods and services bid by Omani agents are said to receive the same national preference. Because of short lead times on open tenders, it is often difficult to notify U.S. firms of trade and investment possibilities, and thereafter difficult for those firms to obtain local agents and prepare tender documents. Foreign firms seeking to compete for open and unpublished tenders find it advantageous to develop relationships with local firms. In the context of its WTO accession, Oman has committed to initiate negotiations to join the Government Procurement Agreement, and some of the "buy Omani" requirements are likely to be relaxed as a result.

Oman's customs procedures are complex. There are complaints of sudden changes in the enforcement of regulations. This should improve as WTO provisions on customs valuation and licensing are gradually implemented. As part of "Omanization," only Omani nationals are permitted to clear shipments, and the right to distribute will be opened only to foreigners with minimum equity investment requirements. Oman, however, has committed to expand the right to import and export to foreign as well as domestic entities in the context of joining the WTO. Processing of shipments at Omani ports and airports can add significantly to the amount of time that it takes to get goods to the market or inputs to a project. Overland shipments from the UAE seldom encounter problems, offering one possible solution.

Oman substantially eased visa requirements in 1999 by offering a 72-hour visa for U.S. and European tourists and businessmen arriving at Muscat's Seeb Airport. Effective October 1, this visa has been extended to fifteen days. However, the visa is non-extendable and the airline carrying the passenger is responsible for ensuring that the visitor departs on time, which in turn has discouraged use of the visa. Two-year multiple-entry visas can be issued to American tourists and business representatives. In general, these visas are only issued at Oman's Washington embassy, although U.S. professionals residing in GCC countries can receive multiple-entry visas at the port of entry. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996 the Royal Oman Police reduced non-resident stays from two months to one month per entry, thereby hampering business visits of longer duration by U.S. and by non-U.S. citizen employees of U.S. firms. These visas can only be extended outside Oman, so visitors whose activities keep them here longer than a month face the added expense of a trip, usually to Dubai, for a visa renewal.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally. Investors in these three sectors receive a full range of tax exemptions, utility discounts, soft loans and, in some cases, tariff protection. The government has also set up an export guarantee program that both subsidizes the cost of export loans and offers a discounted factoring service.

7. Protection of U.S. Intellectual Property

Oman's record on intellectual property protection has improved dramatically in recent years, in tandem with its now successful efforts to accede to the WTO. Oman will have to begin meeting its obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPS) Agreement immediately upon WTO accession. Oman is a member of the World Intellectual Property Organization (WIPO), and in 1998 declared its accession to the Paris Convention for the Protection of Industrial Property (patents, trademarks and related industrial property) and Bern Convention for the Protection of Literary and Artistic Works. In 1998 and 1999 the Omani government implemented a ban on sales of pirated video and audiocassettes and pirated computer software, which once had dominated the local market. Since the government began enforcement of these bans, sales of pirated tapes and computer software has virtually disappeared. The Omani government has also recently begun enforcing a ban on the use of pirated software at commercial establishments and has published warnings to this effect in the local press in mid September.

Oman has a trademark law, which it enforces, but application for trademark protection requires a local agent. Prior to its WTO accession, Oman afforded little or no patent protection in critical areas such as pharmaceutical products. Now, Oman will establish its own Patent Office, its copyright legislation is fully WTO-consistent, and it is in the process of finalizing IPR enforcement legislation that conforms closely to WTO requirements.

8. Worker Rights

Sultan Qaboos issued "The Basic Law" in 1996 which serves as Oman's basic legal framework, akin to a constitution and consistent with Islamic Shari'a Law. In theory, the Sultanate should have issued legislation implementing the Basic Law's provisions within two years of its issuance, but that has not yet occurred. It is unclear whether or how any of the expected implementing measures will affect worker rights.

a. *The Right of Association:* Articles 33 and 34 of the Basic Law establish the right of assembly and freedom of association, consistent with legal limitations. Currently, Omanis and resident foreigners alike are free to join only a very few officially sanctioned associations.

b. *The Right to Organize and Bargain Collectively:* Since 1994, the Sultanate has indicated that it is reviewing a new labor law drafted by the Ministry of Social Affairs and Labor. Sultanate officials have characterized its provisions as consistent with international labor standards. It will reportedly contain a provision for the establishment of worker committees in the work place and remove the current prohibition against strikes. Oman is a member of the International Labor Organization.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory or forced labor is illegal. That said, foreign workers are typically unaware of their right to take disputes over contract enforcement to the Labor Welfare Board or are afraid that questions regarding their employment status will result in deportation.

d. *Minimum Age for Employment of Children:* The Ministry of Social Affairs and Labor enforces 13 as the minimum employment age. Employers require the Ministry's approval to engage children between 13 and 16 years of age in overtime, night, weekend or holiday, or strenuous work. Nonetheless, small family businesses in practice may employ underage children, particularly in the agricultural and fisheries sectors.

e. *Acceptable Conditions of Work:* The minimum wage for nonprofessional expatriate workers is about $156 month, less any charges by Omani sponsors for the workers' visas, but this does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35-hour work week and generous leave of from 42 to 60 days annually plus 9 days emergency leave and Omani holidays. Skilled foreign workers predominate in private sector employment and enjoy regionally competitive wages and benefits. Whether covered by the law or not, many unskilled foreign workers work for less than the minimum wage and for hours exceeding the 40- to 45-hour private sector work week. The temperature during Oman's hot summer has never been officially recorded at the 50 degree (Celsius) mark (122 degrees Fahrenheit), which, adhering to an International Labor Organization standard, would mandate the stoppage of outside labor. Non-Muslim workers are expected to respect the Ramadan month of daytime fasting by not publicly drinking or eating. Foreign workers find Oman very attractive for its employment opportunities and general living conditions.

f. *Rights in Sectors with U.S. Investment:* To date, U.S. firms have little direct investment in Oman. U.S. petroleum firms operating in Oman comply fully with Omani labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		69

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.